

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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Thailand's Rice Export Policies:
Pressure for Change? [redacted]

Summary

Thailand--the world's leading rice exporter--has made impressive gains in export volumes since 1981 and now commands over a third of the world market. Much of this growth has come at the expense of US exports. [redacted]

Despite Bangkok's success, gains in earnings have been curbed by the soft world market, and government export policies have limited returns to rice farmers--a key block of votes. Nor do near-term prospects for increased earnings from rice appear encouraging. As a result, we expect Bangkok to reduce its dependence on rice as the country's major foreign exchange earner while attempting to boost rural incomes through increased productivity. The dilemma for Bangkok will be how to improve the rice farmer's lot while continuing to hold prices for urban consumers to acceptably low levels. [redacted]

Bulls in a Bear Market

Thailand over the past three years has moved aggressively to boost sales of rice, its leading foreign exchange earner. Exports rose from 3.0 million metric tons (mmt) in 1981 to 4.6

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mmt last year, giving Bangkok 37 percent of the world's rice trade--a 10 percentage point jump over the early 1980s. Much of the country's gain in market share has come at the expense of US exports, especially in traditional US markets in Western Europe, the Middle East, and Africa. The strong dollar and high support prices have driven up US export prices, and Bangkok further widened the price differential between US and Thai rice by devaluing and floating the baht last fall. As a result, US prices now average one and a half times higher than prices on comparable grades of Thai rice.* In addition, Bangkok has boosted its sales with improved quality--obtained by installing better sorting and milling machines--and by developing long-grain varieties that appeal to Western and Middle Eastern consumers.

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Limited Payoffs due to...

Market Forces

Despite Bangkok's success in boosting export volumes, its foreign exchange gains from rice have been limited. Last year's rice export revenues were held to \$1.1 billion as world rice prices continued to soften. According to the USDA, price-cutting by Thai exporters also cost the country an estimated \$250 million in 1984.

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Outdated Policy Tools

In addition, Bangkok's export policies have depressed rural incomes. The government has depended on export taxes--which drive a wedge between domestic and world prices--to influence domestic rice supplies and prices, with the objectives of:

- Stabilizing consumer rice prices at a low level to minimize the chances of urban unrest, and

*Bangkok last November devalued the baht by 14.8 percent against the US dollar and floated it against a basket of trading partner currencies. As a result of the baht's lower value, Bangkok's export prices for rice dropped an additional \$50/ton, making them \$200/ton lower than US prices for comparable grades of rice.

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- Generating revenue to fund the country's nonagricultural development.*

Although in the past this did not pose an intolerable hardship for rice farmers, inefficient agricultural policies have led to increasing troubles for most of them. Productivity remains low because of government policies which implicitly discourage the adoption of efficient farming methods; yields have stagnated at about 2 tons per hectare--among the lowest in Asia. Thailand's total rice output has increased because new land has been brought under cultivation, but unexploited land is becoming increasingly scarce--thus putting a potential cap on future increases in total output. Moreover, depressed rural incomes are brewing the potential for serious farmer unrest.

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Setting the Stage for Change?

Since 1980, Bangkok has attempted to address these problems by reforming its pricing and marketing policies for rice exports (see Appendix). It lowered export taxes from 35 percent of the FOB export price to 5.8 percent by 1983. In addition, within the last two years:

- Most minimum export prices have been abolished.
- Government-to-government contracts have been transferred to private exporters.

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Bangkok's export policy liberalizations still depend on the impact of world prices on the domestic market, however. It imposed new regulations on exporters during the current market year to boost demand early in the season. Export quotas, which were abolished in 1982, have been reimposed to encourage stockbuilding--quotas are based on the exporter's stockpiles. The transfer of government-to-government contracts to private exporters also will be based on stockpiles. And although the government does not purchase rice in quantities sufficient to affect the price, it launched a "paddy mortgage scheme" in

*The imposition of an export tax results in only a small increase in the export price; instead, the tax burden is passed on to farmers through a drop in farmgate prices. Export taxes on rice provided about 25 percent of government revenues in the early post-World War II era, and by depressing the domestic price of rice--the country's most important consumer good--kept inflation and thus wages significantly below world levels, according to the World Bank.

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January of this year in response to farmer protests against low paddy prices.* [REDACTED]

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[REDACTED]

[REDACTED] Bangkok fails to reinvest the profits from the rice sector, making it difficult for farmers--most of whom are strapped for cash--to obtain credit for modern inputs such as high-yielding varieties of seed (HYVs), fertilizer, and pesticides. In addition, Bangkok's policies have increased fertilizer prices and discouraged its marketing by private firms, with the result that Thailand now has the most unfavorable paddy-to-rice price ratio in Asia. Irrigation remains limited, acting as another disincentive to the adoption of costly inputs for a crop which in many areas is still dependent on monsoonal rains. Bangkok has concentrated its research efforts on improved varieties for irrigated areas, moreover, leaving farmers in rainfed areas to rely on traditional, less productive strains. [REDACTED]

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*The opposition Thai Nation Party (TNP) sponsored a demonstration by about 3,000 farmers in Bangkok in early January. Farmers demanded higher paddy prices as well as a freeze on the prices of daily necessities and on fertilizer. The protest ended after Prem met with the farmers and the government subsequently announced its paddy mortgage plan. Participating farmers receive half the \$110/ton target value of their paddy at the time of delivery and the other \$55--or more if prices have risen above the target--three months later. In theory, the program would amount to an income transfer from the miller--the usual beneficiary of the increase in prices during the marketing year--to the farmer. The program has been too limited to influence prices significantly, however. [REDACTED]

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Obstacles Ahead

Although Bangkok recognizes the need to rationalize the country's rice policies, conflicting political interests will make it difficult to engineer a significant change. For example, Social Action Party (SAP) members--the mainstay of the Prem coalition--have commercial interests in rice milling and trading, according to Embassy reporting. They are unlikely to support policy liberalizations which would diminish their control of the industry and have taken steps to oust Agriculture Minister Narong and Commerce Minister Koson, in part because they did not share the spoils concomitant with control of the rice industry. Although these SAP members have been unsuccessful so far, they would probably carry their point were discontent over the government's economic policies to grow--and they no doubt would lobby for replacements more to their liking. Koson, moreover, was an object of the opposition party's no-confidence motion this spring and is a probable candidate for replacement in any cabinet reshuffle. [REDACTED]

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A stalemate may result as the opposition Thai Nation Party (TNP)--which draws much of its support from farmers in the country's rice-growing districts--attempts to counter SAP rice interests. It capitalized on farmer concerns in organizing last winter's paddy price demonstrations and we expect it would try to exploit opportunities to embarrass the Prem government in its attempts to make its way into the coalition. We believe the TNP therefore will probably support liberalizations which would benefit farmers at the expense of rice industry middlemen. Moreover, the likelihood that over the short term farm incomes will remain depressed--and that unemployment in the agricultural sector will increase as new land becomes increasingly scarce--suggests that farmers will become more vulnerable to manipulation for political ends. [REDACTED]

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In addition, economic constraints such as the austerity measures Bangkok implemented last fall to back up the devaluation undoubtedly will complicate attempts to balance the conflicting demands of various interest groups. Although the belt-tightening

*In conjunction with the devaluation, the government launched a drive to diversify the country's exports to higher-value crops, processed agricultural products and natural resources, and manufactures. [REDACTED]

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[redacted]

has been accepted fairly well by the public thus far, the desubsidization of rice prices and the resulting sharp increase in the rate of inflation could provoke considerable urban unrest --a risk that has concerned the government more than the possibility of rural unrest. [redacted]

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Outlook

With the world glut likely to persist at least in the short term, prospects for increased export earnings from rice do not appear encouraging. In 1985 world trade in rice is expected to fall 7 percent because of weakening demand, particularly in traditional Asian markets for Thai rice. Thailand also faces increasing competition from China. As a result, export volumes will probably fall to 4.1 mmt, despite Bangkok's stepped-up marketing efforts. Earnings could fall as low as \$750 million because of depressed world prices and continued price-cutting by exporters. [redacted]

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Despite the overall slowdown in rice exports, we expect Bangkok to increase its penetration of US markets in the EC, Africa, and the Middle East over the next two years as a result of its attractive prices and aggressive marketing. Total exports to the Middle East through April were up 12 percent over the same period last year, with the largest increase in exports to Saudi Arabia. The growth of exports to Saudi Arabia appears to have peaked, [redacted] the United States should hold onto the high-quality end of the market as a result of brand loyalty to US packaged rice. [redacted]

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Because of the depressed world market, we believe that in the near term the government will allow market forces to run their course without any major new--and expensive--programs to improve productivity dramatically. Bangkok will probably attempt to improve supplies of inputs such as fertilizer, however. It will also intensify its export promotion efforts, sending more trade missions abroad and increasing its use of countertrade and triangular trade arrangements. [redacted]

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Over the longer term, we believe that Bangkok will attempt to reduce its dependence on rice, and will probably adopt a program similar to that proposed by the Bangkok Bank to boost export earnings and rural incomes. Although serious farmer protests appear unlikely in the near term, Bangkok is unlikely to ignore the potential for greater unrest--or the possibility that export earnings will stagnate if Thailand continues to be overdependent on rice. [redacted]

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Appendix
Thailand's Rice Export Policies

Bangkok has used a variety of pricing and marketing tools to regulate the volume and timing of exports and to influence domestic rice prices. Chief among these are export taxes which have been used both to generate revenue and to stabilize domestic prices at low levels:

- Export duties--currently 2.5 percent of the ad valorem FOB export price.
- Rice premiums--a set of specific taxes, varying by grade. Changed as necessary to stabilize domestic prices. Typically the heaviest taxes, but reduced substantially after world rice prices fell during the early 1980s.
- The reserve requirement--stipulates that for every ton exported, a certain amount of rice of a given quality must be sold to the government at below-market prices. Has been used to provide cheap rice to Bangkok consumers. Abolished in 1982, but could be reimposed if world prices were to rise significantly.

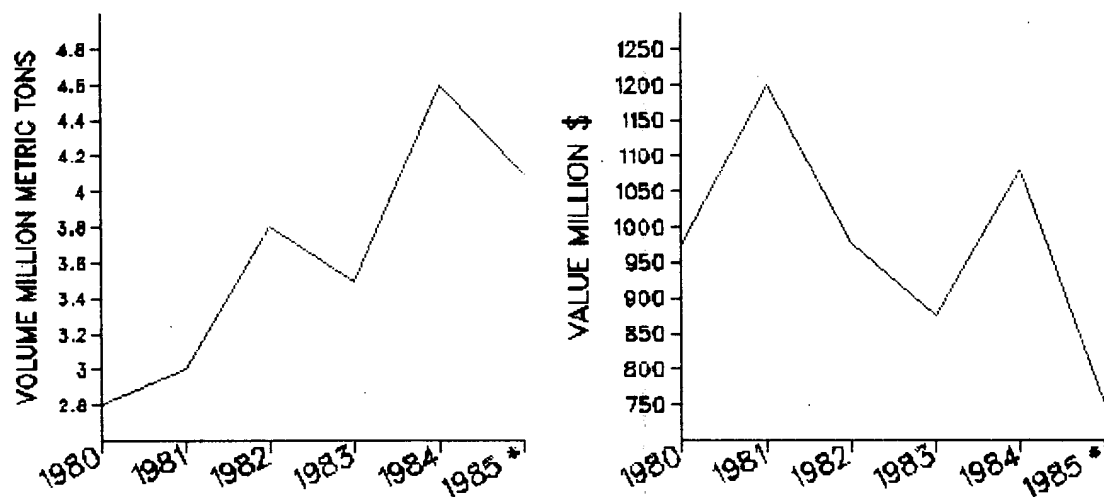
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Additional pricing and marketing measures have included:

- Minimum export prices. Abolished with the exception of sales of brokens in excess of 2,000 metric tons.
- Price support programs. Recent programs--such as the paddy mortgage scheme--have been designed to indirectly influence farmgate prices by creating artificial demand.
- Government-to-government contracts--account for up to 50 percent of total exports. Used to influence the timing of shipments--and indirectly--domestic prices.
- Export quotas--in the past used to restrict export volumes to prevent domestic prices from rising; now used to boost domestic demand by linking to. . .
- Stockpiling requirements.
- Export promotion--for example, sending trade missions overseas.
- Low-interest credits. According to the USDA, Bangkok this year will make \$643 million in packing credits available to exporters, along with \$140-180 million to finance stockbuilding.

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THAILAND'S RICE EXPORTS



* 1985 FIGURES ARE PROJECTED.

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